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SUBJECT: MADRID ECONOMIC WEEKLY, FEBRUARY 15-19

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Demand for GOS Bond Issuances May Signal Reduced Market Concern

1.(U) The Treasury issued 6.58 million euros of 12- and 18-month paper on February 16, 5 billion euros of 15-year bonds on February 17, and 958 million euros of 30-year bonds on February 18. Demand was heavy, as over 14 billion euros of orders were placed for the 15-year bonds and 1.9 billion euros of orders were placed for the 30-year bonds. The interest rates were 80 to 90 basis points above those of similar German debt; two weeks ago, spreads on other Spanish debt had briefly been above 100 basis points. Secretary of State for Economy Campa said the high demand was a positive sign. President Zapatero credited GOS efforts to combat a market "mistake and misjudgment." Campa visited New York and Boston to discuss the GOS' economic plans with institutions interested in Spanish debt. (El Pais, 2/18 and 2/19)

Anti-Crisis Commission Formed

2.(U) President Zapatero announced an Economic Anti-Crisis Commission headed by Minister of Economy/Finance Salgado, Minister of Industry, Tourism, and Commerce Sebastian, and Minister of Public Works Blanco. The Commission will have two months to work with opposition parties on drafting an acceptable economic plan for presentation to the Congress. The Commission is to present its first draft on February 25 when it begins negotiations with opposition party members. Opposition Popular Party leader Mariano Rajoy expressed skepticism, saying the new plan would have to be different from Zapatero's previous plans in order to win his party's support. Some reports expressed surprise over the exclusion from the commission of Labor Minister Corbacho at a time when many see unemployment approaching 20% as the country's most serious economic problem and others see labor reforms as a necessity. (El Pais, 2/19; ABC, 2/18)

Loan Delinquency Rates Continue to Rise

3.(U) Banking system loan delinquency rates rose to just over 5% in December, the highest rate since May of 1996. Although savings banks ("cajas") as a group have generally reported higher delinquency rates than banks as a group, bank and caja rates were nearly identical in December, in part because Spain's second largest bank, BBVA, reclassified 1.8 billion euros of loans as doubtful. Consumer credit delinquency

increased, while mortgage delinquency rates remain moderate, helped by the decline in the Euribor rate that sets variable-rate mortgage payments. (El Pais, 2/19)

CHACON